

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-01 H-02 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-02 AID-05 SS-15
STR-04 ITC-01 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01
PM-05 AF-10 /119 W
-----055024 161758Z /44

R 161656Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0686
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 15)

REF.: BONN 12994, BONN 12631 AND BONN 2551

1. SPECULATION OVER AND PROPOSALS FOR NEW ECONOMIC
STIMULUS:
ACCORDING TO THE PRESS, ECONOMICS MINISTER FRIDERICH
IS NOW PROJECTING A 1978 GROWTH RATE FOR REAL GNP OF
ONLY 3.0-3.5 PERCENT IF NO ADDITIONAL STIMULUS IS PRO-
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VIDED AND IS ADVOCATING AIMING FOR 4.5 PERCENT WITH NEW
STIMULUS. THERE IS WIDE SPECULATION OVER WHAT FORM
THE NEW STIMULUS WILL TAKE. IN ADDITION TO MILDLY MORE
EXPANSIONARY PUBLIC BUDGETS THAN PREVIOUSLY PLANNED,
MOST COMMENTATORS EXPECT A TEMPORARY LOWERING (UP TO
10 PERCENT) OF INDIVIDUAL AND CORPORATE INCOME TAXES
UNDER THE STABILITY AND GROWTH LAW. THIS LAW ALLOWS

THIS TO BE DONE BY A GOVERNMENT ORDINANCE APPROVED BY BOTH THE BUNDESTAG AND THE BUNDESRAT WHICH COULD BE PASSED MUCH MORE QUICKLY (AND WITHOUT POSSIBILITY OF AMENDMENT EITHER BY THE BUNDESTAG OR BUNDESRAT) THAN NORMAL TAX LEGISLATION. THERE IS SOME SPECULATION THAT SUCH A TEMPORARY REDUCTION COULD LATER ON BE REPLACED BY A PERMANENT TAX CHANGE. THE MAIN DRAWBACK OF USING THE STABILITY AND GROWTH LAW MECHANISM IS THAT SUCH A TEMPORARY REDUCTION ACCORDING TO MOST EXPERTS HAS TO BE UNIFORM FOR ALL TAX BRACKETS AND THAT IT MIGHT BE DIFFICULT TO GET AGREEMENT OF THE SPD BUNDESTAG FACTION TO EVEN TEMPORARY NON-DIFFERENTIATED REDUCTIONS. THE GROWTH AND STABILITY LAW ALSO PROVIDES FOR THE POSSIBILITY OF A TEMPORARY INVESTMENT BONUS OF UP TO 7.5 PERCENT. THERE IS, HOWEVER, ALSO CONSIDERABLE SUPPORT FOR - AND OPPOSITION TO - A PERMANENT LIBERALIZATION OF DEPRECIATION ALLOWANCES OR AN INVESTMENT BONUS RESTRICTED TO "ADDITIONAL", PREVIOUSLY UNPLANNED, INVESTMENT. BOTH WOULD REQUIRE NORMAL LEGISLATION. OTHER PROPOSALS RANGE FROM PLANS FOR TEMPORARILY OR PERMANENTLY INCREASING EMPLOYMENT IN THE PUBLIC SECTOR TO SPECIAL SUBSIDIES FOR PARTICULAR ECONOMIC SECTORS, FURTHER REDISCOUNT RATE DECREASES, ETC. IT SEEMS UNLIKELY THAT THE GOVERNMENT WILL CLARIFY ITS PLANS UNTIL AFTER THE CABINET CONSIDERATION SCHEDULED FOR THE END OF THIS MONTH.

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2. EMMINGER NAMED GERMAN IMF GOVERNOR:
THE FEDERAL CABINET HAS NOW NAMED BUNDESBANK PRESIDENT EMMINGER TO BE GERMAN GOVERNOR OF THE IMF AND FINANCE MINISTRY STATE SECRETARY LAHNSTEIN TO BE VICE GOVERNOR.

3. FURTHER INCREASE IN HERMES EXPORT GUARANTEES?
IN AN INTERVIEW WITH "DIE WELT" STATE SECRETARY ROHWEDDER OF THE ECONOMICS MINISTRY ANNOUNCED THAT IN SEPTEMBER THE FEDERAL GOVERNMENT WILL RE-EXAMINE ITS EXPORT PROMOTION POLICY. ROHWEDDER SAID, A FURTHER INCREASE IN THE CEILING FOR HERMES EXPORT GUARANTEES (CURRENTLY DM 110 BILLION -- SEE BONN 2551) SHOULD BE CONSIDERED SINCE SOME BUYING COUNTRIES MAY HAVE REACHED CEILINGS FOR GERMAN EXPORT GUARANTEES ESTABLISHED BY THE FEDERAL GOVERNMENT. IN VIEW OF THE CURRENT DOMESTIC EMPLOYMENT CONDITIONS GERMAN EXPORTS SHOULD NOT BE HAMPERED BY LIMITED EXPORT GUARANTEE FACILITIES. FURTHERMORE, THE

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R 161656Z AUG 77
FM AMEMBASSY BONN
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CREDIT STANDING OF SOME CUSTOMER COUNTRIES SHOULD BE
RE-EXAMINED. IN THIS CONTEXT, THE FRG'S EXPORT POLICY
TOWARDS SOUTH AFRICA SHOULD BE REVIEWED. ROHWEDDER,
HOWEVER, STATED THAT A CHANGE IN THE FRG'S SOUTH AFRICA
EXPORT POLICY WOULD ONLY BE "THINKABLE" IF OTHER
COUNTRIES WOU/D ALSO CHANGE THEIR SOUTH AFRICA POLICIES.

4. FOREIGN EXCHANGE MARKET:
DURING THE PERIOD UNDER REVIEW THE DOLLAR STRENGTHENED
CONSIDERABLY AGAINST THE DEUTSCHEMARK. THE GERMAN
FINANCIAL PRESS ATTRIBUTED THIS BASICALLY TO TWO FAC-
TORS: A SHIFT IN THE FLOW OF SPECULATIVE FUNDS AFTER
THE PARIS MEETING OF SECRETARY BLUMENTHAL AND FINANCE
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MINISTER APEL AND THE CURRENT INCREASE IN U.S. INTEREST
RATES AS WELL AS SPECULATION THAT THE U.S./GERMAN

INTEREST RATE DIFFERENTIAL MAY WIDEN FURTHER. DURING THE PERIOD UNDER REVIEW FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	FORWARD DOLLARS				
	SPOT DOLLARS (IN PCT. PER ANNUM)				
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MOS
AUG 9	2.3115	2.3124	2.3085	-2.2	-2.4
10	2.3115	2.3190	2.3188	-2.3	-2.6
11	2.3170	2.3164	2.3140	-2.5	-2.7
12	2.3273	2.3298	2.3285	-2.6	-2.6
15	2.3285	2.3318	2.3320	-2.4	-2.6
16	2.3368	2.3411	N.A.	N.A.	N.A.

5. MONEY MARKET:

CONDITIONS ON THE GERMAN MONEY MARKET REMAINED RATHER UNCHANGED. DURING THE REPORTING WEEK FRANKFURT INTER-BAN MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
AUG 9	3.9-4.0	4.00	4.00
10	3.9-4.0	4.00	4.00
11	3.9-4.0	4.00	4.00
12	4.0	4.00	4.00
15	3.9-4.1	4.00	4.00

5. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD AUGUST 1-7 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 87.2 UNCLASSIFIED

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BILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 83 MILLION AND SDR HOLDINGS BY DM 604 MILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 772 MILLION WHILE FOREIGN LIABILITIES FELL BY ABOUT DM 120 MILLION.

6. BANK LIQUIDITY:

DURING THE SAME PERIOD BANKS REDUCED THEIR INDEBTEDNESS TO THE BUNDESBANK BY DM 2.8 BILLION. LOMBARD BORROWINGS DECLINED BY DM 1.6 BILLION TO DM 0.1 BILLION, NORMAL RE-DISCOUNT BORROWINGS BY DM 1.0 BILLION TO DM 16.1 BILLION AND SPECIAL REDISCOUNT BORROWINGS BY DM 0.2 BILLION TO DM 4.5 BILLION.

THE BANKS FINANCED THE DECLINE IN THEIR CENTRAL BANK INDEBTEDNESS MAINLY BY REDUCING RESERVE HOLDINGS AT THE BUNDESBANK BY DM 2.9 BILLION. (DURING THE PERIOD AUGUST 1-7 SUCH RESERVES, ON AVERAGE PER DAY, AMOUNTED TO DM 44.8 BILLION WHICH IS BELOW AUGUST RESERVE REQUIRE-

EMENTS.) THE BANKS MAY HAVE DONE SO IN ANTICIPATION OF
A REDISCOUNT RATE DECREASE OR A MINIMUM RESERVE REDUCTION
TO BE DECIDED BY CENTRAL BANK COUNCIL AT ITS AUGUST 11
MEETING (MEASURES THE COUNCIL FACTUALLY DID NOT TAKE).
TWO OTHER FACTORS WHICH USUALLY INCREASE BANK LIQUIDITY
AT THE BEGINNING OF A MONTH WERE NOT EFFECTIVE THIS
TIME: BUNDESBANK ASSETS OF PUBLIC AUTHORITIES REMAINED
VIRTUALLY STABLE (MINUS DM 0.1 BILLION ONLY) DUE TO
SUBSTANTIAL BORROWINGS OF PUBLIC AUTHORITIES INCLUDING
THE DM 2.0 BILLION SALE OF MEDIUM-TERM NOTES BY THE
FEDERAL GOVERNMENT (SEE BONN 12631), AND CURRENCY IN
CIRCULATION FELL ONLY BY DM 0.1 BILLION REFLECTING
CONTINUED LIQUIDITY DEMAND FOR THE VACATION SEASON.
FACTORS REDUCING LIQUIDITY REACHED, NET, DM 0.3 BILLION
ONLY.

7. BOND MARKET:
ON THE MARKET FOR DOMESTIC BONDS PRICES INCREASED AGAIN.
ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING
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BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

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R 161656Z AUG 77
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REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

AUGUST 12 4.35 4.95 5.50 5.85 6.20 6.30

AUGUST 5 4.40 5.00 5.55 5.95 6.25 6.35

ON AUGUST 17 THE FEDERAL RAILWAYS WILL OFFER A DM 800 MILLION LOAN (COUPON 6 PERCENT, ISSUE PRICE 99.50, MATURITY 10 YEARS, YIELD TO MATURITY 6.07 PERCENT). IN A PRESS STATEMENT, BUNDESBANK PRESIDENT EMMINGER EMPHASIZED THAT ONE HAD TO GO BACK TO 1964 TO FIND A PUBLIC UNCLASSIFIED

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LOAN WITH SUCH A LOW YIELD TO MATURITY. ON THE MARKET FOR FOREIGN DM BONDS, THE DM 200 MILLION LOAN OF THE QUEBEC HYDRO-ELECTRIC COMMISSION (SEE BONN 12994) WILL BE OFFERED AT A COUPON OF 6 1/2 PERCENT, AN ISSUE PRICE OF 100.50, AND A MATURITY OF 10 YEARS (YIELD TO MATURITY 6.43 PERCENT).

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED
 BUNDESBANK DATA (1)

 JUNE 1977 MARCH 1977 PCT. CHANGE
 OVER
 (DM BILLION) JUNE 1976

BUSINESS LOANS	409.9	402.4	#7.6
CONSUMER CREDITS	74.9	69.9	#19.8
MORTGAGE DEBT	287.1	279.3	#9.0

 (1) REPORTED ONLY ON A QUARTERLY BASIS
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Message Attributes

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Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770295-0590
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770859/aaaabxsi.tel
Line Count: 330
Litigation Code IDs:
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
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Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 15)
TAGS: EFIN, GE
To: STATE TRSY
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vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/750c635a-c288-dd11-92da-001cc4696bcc
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